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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey
October, 1985

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The Conference Board



The Conference Board Survey of Financial Indicators

October, 1985

Introductory Note: This is the nineteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

Senior financial executives participating in The Conference Board's nineteenth semiannual survey of Financial Indicators and Corporate Financing Plans look for moderate growth of the U.S. economy in both 1986 and 1987. According to these executives, who were polled in September:

- Real economic growth will average 2.5 percent in 1986 and 2.8 percent in 1987.
- Inflation will increase slightly, averaging 4 percent in 1986 and 4.5 percent in 1987.
- Profits of the companies in the survey are expected to rise an average of 8.3 percent in the coming twelve-month period.
- The value of the U.S. dollar is not expected to change substantially from its value in early September. (These financial executives were polled before the five-nation joint policy statement about the dollar.)

Moderate Growth Ahead

Most of the 33 executives look for at least two more years of real economic growth. Only a handful now see the economy slipping into a recession next year, and they also expect a rebound with above-average growth in 1987. A few other executives see a recession developing in 1987. By comparison, last April no executive saw a recession taking place, either this year or next. The business executives polled by The Conference Board are far more optimistic than 350 members of the National Association of Business Economists who were also polled in September, roughly half of whom look for a recession to begin before the end of 1986.

Panel members see inflation rising slightly. The highest forecast is for inflation to average 5.7 percent in 1986, and only two executives think it will average as high as 6 percent in 1987. In line with this view, most anticipate gentle increases in short-term and long-term interest rates from present levels. No panel member predicts the prime rate to average more than 11 percent next year or more than 11.5 percent in 1987. All executives see a "normal" yield curve, with short-term interest rates remaining below long-term rates, in 1986, and only one executive sees a flat yield curve in 1987.

Although executives believe real growth will continue with interest rates and inflation rising only slightly, they look for little improvement in the Dow Jones index, which they see averaging 1331 and 1358 in the next two years.

Higher Corporate Profits in 1986

Panel members were asked to provide estimates of the change expected in the before-tax profits of their companies in the coming 12-month period. According to the 21 who responded, corporate profits are expected to rise by 8.3 percent. This figure is in line with Conference Board estimates of before-tax profits for corporations as a whole: profits are estimated to rise by roughly 9 percent in 1986, after falling by about 7 percent in 1985.

Companies in the survey plan to continue their heavy reliance on internally generated funds, which accounted for 81 percent of total corporate funds in the past 12 months. Surprisingly, internal funds of nonfinancial corporations as a whole also averaged roughly 81 percent of total funds for the latest twelve-month period available. This unusually high figure was largely

The Panel's Outlook for Profits

Number of Panel Members

<i>Less than 0</i>	<i>Zero but less than 10%</i>	<i>10% but less than 20%</i>	<i>20% but less than 30%</i>	<i>30% and above</i>	<i>Range</i>	<i>Average</i>
3	8	6	3	1	(20)-40	8.3

due to a reduction in net corporate equity of more than \$70 billion which, in turn, largely reflects corporate mergers and acquisitions.

As for external funds, companies in the survey plan to rely more heavily on new bond issues, a trend which also holds for corporations as a whole. According to Moody's, total prospective financing of industrial companies alone exceeded \$50 billion in late September, as compared with \$28 billion a year ago. Executives of companies participating in the survey also plan to reduce their companies' reliance on commercial paper in the months ahead.

Outlook for the Dollar

Most survey responses were received before executives could take account of the five-nation accord to

lower the value of the U.S. dollar in late September.

The majority of executives whose companies engage in international operations look for the German mark and the Japanese yen to appreciate against the U.S. dollar by the end of the first quarter of 1986. The majority also sees the British pound depreciating against the dollar by year-end. And the majority also looks for the dollar price of gold to rise by March 31, 1986.

Generally, panel members look for a weakening of the dollar in the next two quarters from its September 1st exchange rate. The September accord should, if anything, contribute to lowering the value of the dollar.

Vincent G. Massaro

Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Waters at (212) 759-0900.

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook			
		Average Dec. '85 (4th Q GNP)	Average Mar. '86 (1st Q GNP)	Average 1986	Average 1987
New Aaa industrial rate (%)	10.7	10.9	11.0	11.0	11.3
Prime rate (%)	9.5	9.5	9.7	9.8	10.2
Dow-Jones Average (Index)	1,343.0	1,330.0	1,324.0	1,331.0	1,358.0
Real GNP (%)	1.7	2.5	2.1	2.5	2.8
GNP deflator (%)	2.8	3.5	3.8	4.0	4.5

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up		Down	
			(percentage points) 5-9.99	10 or more	(percentage points) 5-9.99	10 or more
(a) Composition of Total Funds						
Internal Funds*	81	17	4	6	0	5
External Funds	19	17	0	5	4	6
	100%					
(b) Composition of External Funds						
Net new bond issues	36.7	11	0	8	0	5
Private placements	1.3	22	0	1	0	1
Net new equity	2.1	20	2	1	0	2
Bank term loans	11.0	21	0	1	0	2
Bank short-term loans	0.0	20	0	3	1	0
Commercial paper	47.7	9	2	3	1	8
Other	1.2	20	0	2	0	2
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1985:

	Latest Available	Expected Change									
		By Dec. 31, 1985					By March 31, 1986				
		Less than 1% change	Appreciate 1%-5%	Depreciate 1%-5%	Depreciate 5%+		Less than 1% change	Appreciate 1%-5%	Depreciate 1%-5%	Depreciate 5%+	
Canadian dollar	\$.7326	20	4	0*	5	0	11	9	2	7	0
British pound	1.39	4	6	1	15	3	7	6	3	8	5
German mark	.3556	4	12	2	10	1	2	16	6	4	1
Japanese yen	.0042	7	12	2	7	0	2	18	4	4	0
Gold	\$333.25	9	7	1	7	1	5	12	1	4	2

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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey
April, 1986

The Conference Board



The Conference Board Survey of Financial Indicators

April, 1986

Introductory Note: This is the twentieth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

According to the 27 executives who participated in the twentieth survey of Financial Indicators and Corporate Financing Plans:

- Economic activity in the United States will continue to grow at moderate rates both this year and next, without slipping into recession in either year.
- On average, there will be little change in either short-term or long-term interest rates. A flat yield curve will prevail through 1987.
- Inflation will rise moderately from current levels, averaging 4.1 percent over the coming five-year period.
- U.S. companies will continue to rely heavily on internally generated funds and long-term bonds.
- Major currencies will appreciate against the value of the U.S. dollar.

Two More Years of Economic Growth

The U.S. economy is expected to grow at average rates of 2.9 and 2.8 percent annually in 1986 and 1987, respectively. These figures are broadly in line with the panel's estimates of last October. Only one executive sees a mild recession in either year, compared with a handful of executives in the last survey.

The financial executives have, however, sharply lowered their estimates of inflation for this year and next. They now see the GNP deflator rising by 3 percent and 3.6 percent respectively, as compared with 4 percent and 4.5 percent respectively last October. They have, accordingly, lowered their expectations for interest rates by about 1 percentage point for the prime rate and roughly 2 percentage points for the new Aaa industrial rate. They now see a flat yield curve with the prime rate averaging 9 percent each year and the Aaa rate averaging slightly

more. No executive sees the prime rate averaging as high as 11 percent in either year, and only two see the Aaa rate averaging 11 percent or more. Two executives also look for the Aaa rate to average less than 8 percent in 1987.

The Panel's Five Year Outlook for Inflation

Panel members look for inflation to average 4.1 percent during the five-year period 1986-1990. This represents the panel's second successive downward adjustment in its estimates of inflation, from 4.8 percent last April and 5.9 percent two years ago. The rate of 4.1 percent is somewhat higher than the average rate of inflation during the last three years. Also, given the panel's estimates of inflation for 1986 and 1987, the five-year average rate implies that inflation will average 4.7 percent in the period 1988-1990.

The Outlook for Corporate Finance

Surveyed executives indicate that their companies are planning to rely more heavily on internal funds in the coming twelve-month period and that they, once again, plan to rely heavily on new bond issues for their own borrowings of external funds. Companies in the survey normally rely more heavily on internal funds and they normally rely more heavily on bonds and commercial paper than do nonfinancial companies as a whole. In the past twelve months, however, the latter have relied more heavily on bond issues, and have lowered their net equity in credit markets by \$81.6 billion. While this shift is understandable in light of the mergers and acquisitions that are taking place, the massive reduction in equity nonetheless has caused concern about whether some companies will have enough capital to weather the next recession.

The Panel's Outlook for Inflation

Number of Panel Members

	<i>Less than 4 percent</i>	<i>4 percent but less than 5 percent</i>	<i>5 percent but less than 6 percent</i>	<i>6 percent but less than 7 percent</i>	<i>7 percent and above</i>	<i>Range</i>	<i>Average</i>
April 1983	1	5	15	6	4	2.5-8.2	5.6
April 1984	1	2	9	19	4	3.5-7.1	5.9
April 1985	4	15	14	4	0	2.8-6.5	4.8
April 1986	9	13	2	2	0	2.5-6.5	4.1

A Weaker Dollar Ahead

The financial executives whose companies engage in international operations see the U.S. dollar continuing to weaken in the months ahead. The majority look for the German mark and the Japanese yen to appreciate against the dollar in both forecast periods. Fifteen executives see a rise in the mark of more than 5 percent and eighteen see a rise in the yen of more than 5 percent by

September 30, 1986. The majority also expect the Canadian dollar and the British pound to appreciate against the dollar by September 30. Executives are also looking for a slight increase in the dollar price of gold in both forecast periods.

Vincent G. Massaro

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook			
		Average June '86 (2nd Q GNP)	Average Sept. '86 (3rd Q GNP)	Average 1986	Average 1987
New Aaa industrial rate (%)	10.0	9.2	9.2	9.3	9.5
Prime rate (%)	9.5	9.0	8.9	9.0	9.0
Dow-Jones Average (Index)	1,535.0	1,761.0	1,784.0	1,727.0	1,732.0
Real GNP (%)	2.4	3.0	3.3	2.9	2.8
GNP deflator (%)	3.3	2.6	2.8	3.0	3.6

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up		Down	
			(percentage points)		(percentage points)	
			5-9.99	10 or more	5-9.99	10 or more
(a) Composition of Total Funds						
Internal Funds*	79	8	1	9	2	2
External Funds	21	8	2	2	1	9
	100%					
(b) Composition of External Funds						
Net new bond issues	51.9	5	0	6	0	6
Private placements	8.4	12	0	0	2	3
Net new equity	5.6	12	1	0	0	2
Bank term loans	−6.9	14	0	2	0	0
Bank short-term loans	−4.2	14	0	0	0	2
Commercial paper	30.3	7	0	2	1	7
Other	14.9	14	0	2	1	0
	100%					

* Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1986:

Latest Available		Expected Change									
		By June 30, 1986					By Sept. 30, 1986				
		Less than 1% change	Appreciate 1%-5%	Depreciate 5%-10%	Depreciate 10%-15%	Depreciate 15%+	Less than 1% change	Appreciate 1%-5%	Depreciate 5%-10%	Depreciate 10%-15%	Depreciate 15%+
Canadian dollar	\$.7027	11	10	0	4	0	5	13	1	6	0
British pound	1.44	7	9	3	6	0	3	11	4	2	5
German mark	.4486	3	10	10	1	1	1	7	15	1	1
Japanese yen	.0056	2	9	11	2	0	2	4	18	1	0
Gold	\$338.15	5	9	2	4	2	4	10	3	3	2

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October, 1986

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The Conference Board Survey of Financial Indicators

October, 1986

Introductory Note: This is the twenty-first issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based. Please note that the format of the next issues will change in order to present the findings more quickly.

According to 28 senior financial executives who were polled in September:

- The U.S. economy will be marked by at least two more years of moderate economic growth.
- Inflation will remain moderate through 1988.
- Profits of the surveyed companies will rise an average of 17 percent in 1987.
- There will be some further weakening of the U.S. dollar.

No Recession In Sight

According to the latest semiannual survey of Financial Indicators and Corporate Financing Plans, financial executives continue to see real growth ahead for the U.S. economy. Real output is expected to grow at an average rate of 2.7 percent in 1987 and 2.8 percent in 1988. Not one of the participating panel members sees a recession in either year.

In line with these expectations, no flare-up of inflation is anticipated. The panelists foresee the nation's GNP deflator rising at an average rate of 3.1 percent next year and 3.6 percent in 1988. This finding is significant since the survey took place in September 1986, during the precise period in which concern over inflation started to revive. Financial market participants in September reacted to soaring money aggregates, sharp movements in prices of precious metals, and price increases in commodity futures. Panel members view these moves as temporary aberrations rather than early warning signals of sharply higher inflation.

The panel looks for gently rising interest rates and the continuation of a "normal" yield curve, i.e., one in which short term rates remain below the level of long term interest rates. Between 1987 and 1988, the prime rate is expected to rise from an average of 7.8 percent to 8.2 percent, and the Aaa rate from 8.8 percent to 9.0 percent. The rise in interest rates is approximately in line with the expected increase in money GNP and inflation.

Higher Profits In 1987

With respect to their own companies, nearly half of the financial executives who responded look for company profits (before tax) to increase in a range of 8 to 12 percent. The average increase projected by all respondents is 17 percent; but the average falls to slightly under 9 percent when the highest and lowest estimates of corporate profits are removed. In either case, the average is higher than last year's outlook.

Surprisingly, although the panel looks for the Dow-Jones average to rise to 1881 next year and to nearly 2000 in 1988, companies' net new equity issues are not expected to increase in the forecast period. They do, however, plan to rely heavily on external funds and anticipate continued heavy issuance of bonds and bank term loans. Total prospective financing of corporations as a whole, according to Moody's, far exceeds last year's prospective figure: The figure for industrial companies alone amounts to more than \$73 billion, as compared with \$51 billion a year ago. Executives of companies participating in the survey plan to continue to rely less heavily

THE PANEL'S OUTLOOK FOR PROFITS

NUMBER OF PANEL MEMBERS

	<i>Less than 0</i>	<i>Zero but less than 10%</i>	<i>10% but less than 20%</i>	<i>20% but less than 30%</i>	<i>30% and above</i>	<i>Range</i>	<i>Average</i>
October 1985	3	8	6	3	1	(20)-40	8.3
October 1986	4	5	6	1	3	(50)-232	17.4

than usual on short-term funds, reflecting their outlook for moderate growth in the economy.

And A Weaker U.S. Dollar

Executives whose companies engage in international operations see less volatility in exchange rates over the coming six-month period. The Japanese yen and the German mark are expected to appreciate against the U.S.

dollar, but in a range of 1 to 5 percent. The Canadian dollar is expected to depreciate by 1 to 5 percent against the U.S. dollar. Executives are divided on the outlook for the British pound. The majority looks for the dollar price of gold to be higher by year end and by the end of the first quarter of 1987, with somewhat less than half expecting increases of more than 5 percent.

Vincent G. Massaro

ATTENTION PC USERS: All data in this publication plus extensive government statistics are available on cost-effective diskettes. For more information, contact Linette Waters at (212) 759-0900.

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook			
		Average Dec. '86 (4th Q GNP)	Average March '87 (1st Q GNP)	Average 1987	Average 1988
New Aaa industrial rate (%)	8.9	8.5	8.6	8.8	9.0
Prime rate (%)	8.0	7.5	7.7	7.8	8.2
Dow-Jones Average (Index)	1,775.0	1,858.0	1,861.0	1,881.0	1,993.0
Real GNP (%)	1.1	2.3	2.4	2.7	2.8
GNP deflator (%)	2.1	2.7	3.1	3.1	3.6

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the relative amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up		Down	
			(percentage points) 5-9.99	10 or more	(percentage points) 5-9.99	10 or more
(a) Composition of Total Funds						
Internal Funds *	69	6	2	10	2	6
External Funds	31	6	2	6	2	10
	100%					
(b) Composition of External Funds						
Net new bond issues	61.3	8	2	7	0	6
Private placements	7.1	20	0	1	1	1
Net new equity	5.7	19	0	0	0	4
Bank term loans	13.5	20	1	0	1	1
Bank short-term loans	6.4	20	1	0	0	2
Commercial paper	9.6	10	1	6	0	6
Other	-3.6	18	1	0	2	2
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1986:

	Latest Available	Expected Change									
		By Dec. 31, 1986					By March 31, 1987				
		Less than 1% change	1%-5%	Appreciate 5%	Depreciate 1%-5%	Depreciate 5%	Less than 1% change	1%-5%	Appreciate 5%	Depreciate 1%-5%	Depreciate 5%
Canadian dollar	\$.7212	16	1	0	9	0	12	3	0	11	0
British pound	1.49	8	10	0	8	0	4	11	2	8	1
German mark	.4932	4	16	3	2	0	1	18	3	3	0
Japanese yen	.0065	6	13	4	2	0	1	13	5	6	0
Gold	\$384.70	2	9	10	1	0	3	9	9	0	1

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